

# Background and Previous Council Direction

## Background

The creation of a portfolio of financial reserves and the optimal funding and judicious management of these reserve funds is part of the long-term fiscal strategy at The City. Reserves are used to accumulate funds over time to replace capital assets, to provide a measure of financial flexibility to react to budget shortfalls and to manage the financial impact of significant unexpected issues in a timely manner. The City has a balanced approach to the planning and use of reserves and has an established policy framework in place for guiding the responsible stewardship of reserves and to ensure that these funds are managed prudently.

The City Auditor's Office completed an audit of The City's Financial Reserves in 2009. The FCS2010-01 report (AC2009-74) dated 2010 January 18, detailed the recommendations of the audit and Administration's response and work plan to address the recommendations. One of Administration's responses was to create a Triennial Reserve Review process in which every reserve will be reviewed at least once every three years.

Council Policy CFO013 Financial Reserves (updated in 2010, with minor revisions in 2016, and under review in 2024) defines the requirements for the periodic review of all reserves as part of the Triennial Review process. Administration Policy on Financial Reserves FA-050 (created in 2010, with minor revisions in 2016, and under review in 2024) defines the purpose of the Triennial Reserve Review, which is to ensure that reserves are being managed properly and to evaluate the continued relevance of individual reserves. Every active reserve will be reviewed at least once every three years. The Administrative Review Committee is tasked with providing a report on the results of its review of the Council approved reserves to the Executive Committee by the end of each year and then forwarded to Council for its approval.

The 2020 and 2021 Triennial Reserve Reviews were suspended with Council approval (PFC2020-0723 and C2021-0446) and alternate procedures were performed to review reserves as part of The City's SAVE (Solutions for Achieving Value and Excellence) program. The SAVE Financial Reserves Optimization review included twelve reserves totaling \$1,549 million. This reserves review identified total ongoing base budget savings of \$20 million for 2022 and onwards and one-time savings of \$14.4 million in 2021 and \$8.5 million in 2022. In addition, several operational recommendations were made to improve the transparency and administration of reserves.

The list of 19 reserves included in the 2022 Triennial Reserve Review was approved by Council (EC2022-0815) on 2022 October 4. In 2022, Administration experienced resource capacity constraints, timeline compression and associated review scheduling issues. As a result, the Administrative Review Committee for the Triennial Reserve Review recommended a deferral of the 2022 Triennial Reserve Review report to the Executive Committee, from December 2022 to June 2023. The deferral of the report to the Executive Committee was approved by Council (EC2022-0815) on 2022 October 4.

The City Auditor's Office completed an audit of The City's Financial Reserves in 2024. The AC2024-0569 dated 2024 April 25, detailed that key processes and controls established to manage financial reserves are designed and operating effectively. Two recommendations were raised to better align City reserves policies to best practice guidance from Government Finance Officers Association (GFOA), which will help mitigate the risk of overfunded/underfunded reserve balances, and one recommendation to better define reserve type to support consistent practice.

Council Policy CFO013 Financial Reserves directs that the annual Triennial Reserve Review Report include, for approval, a list of reserves to be reviewed in the following year.

## Previous Council Direction

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As per the direction in Council Policy CFO013 Financial Reserves, each active reserve will be reviewed at least once every three years with a report, along with any recommendations and a list of reserves to be reviewed in the following year, to the Executive Committee by the end of each year and then to Council for its approval.

DATE	REPORT NUMBER	DIRECTION/DESCRIPTION
2010 January 18	AC2009-74	<p><a href="#"><u>FCS2010-01 Report</u></a> Details the recommendations of the audit of The City's Financial Reserves in 2009 by the City Auditor's Office and Administration's response and work plan to address the recommendations. One of Administration's responses was to create a Triennial Reserve Review process in which every reserve will be reviewed at least once every three years.</p>
2010 December 6	FCS2010-25	<p><a href="#"><u>CFO013 Financial Reserves Council Policy Update</u></a> The policy was updated and replaces FB98-27 that was approved by Council 1998 May 5. The updated policy requires each active reserve to be reviewed at least once every three years with a report, along with any recommendations and a list of reserves to be reviewed in the following year, to the Executive Committee by the end of each year and then to Council for its approval.</p>
2020 July 14	PFC2020-0723	<p><a href="#"><u>Deferral of 2020 Triennial Reserve Review</u></a> Council approved to suspend the requirements of Council Policy CFO013 section 1.4 "Periodic review of a reserve (Triennial Reserve process)" for the 2020 work scope as previously approved by Council (PFC2019-1385) and redirect Administration resources in an alternate work scope as recommended by the Administrative Leadership Team to the SAVE Program - Reserves Optimization review.</p>
2021 April 12	C2021-0446	<p><a href="#"><u>Deferral of 2021 Triennial Reserve Review</u></a> Council approved the deferral of the 2021 Triennial Reserves Review to 2022 Q4 to enable resources to be redirected to additional reserve reviews as a result of the Solutions for Achieving Value and Excellence (SAVE) Financial Reserves Optimization business case recommendations.</p>
2022 October 4	EC2022-0815	<p><a href="#"><u>List of Reserves to be Reviewed in the 2022 Triennial Reserve Review and Deferral of Report</u></a> Council approved the list of reserves to be reviewed in the 2022 Triennial Reserve Review and the deferral of the report to the Executive Committee from December 2022 to June 2022 due to resource capacity constraints and timeline compression and associated review scheduling issues.</p>

2024 May 23

AC2024-0569

**Financial Reserves Audit**

Audit Committee received this report that detailed that key processes and controls established to manage financial reserves are designed and operating effectively. Two recommendations were raised to better align City reserves policies to best practice guidance from Government Finance Officers Association (GFOA), which will help mitigate the risk of overfunded/underfunded reserve balances, and one recommendation to better define reserve type to support consistent practice.

## Bylaws, Regulations, Council Policies

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### **Council Policy CFO013 Financial Reserves**

Council Policy CFO013 Financial Reserves defines and delineates how City of Calgary reserves are created, amended, closed, administered, and reviewed. The policy requires each active reserve to be reviewed at least once every three years with a report, along with any recommendations and a list of reserves to be reviewed in the following year, to the Executive Committee by the end of each year and then to Council for its approval.